HRI's projected medical cost trend 2007-2018

HRI projects a medical cost trend of 6.5% in 2018; a slight uptick from 2017
After plan design changes, the net growth rate is expected to be 5.5%

HRI recalibrated its medical cost trend estimates down for 2016 and 2017

Adjusted estimates based on new data showing lower than anticipated medical costs in 2016 and 2017

Source: PwC Health Research Institute analysis
Growth in employer medical costs - which has been gradually declining for decades - is settling into a "new normal" characterized by flatter, single-digit trend.
Price continues to be a major driver of medical cost trend

Components of growth in employer benefit costs, 2007-2016

Source: PwC Health Research Institute analysis of Bureau of Labor and Statistics data
Putting trend in perspective

Roughly half of employer health costs stem from hospital inpatient and outpatient services; the prescription drug share is small but increasing

Share of employer healthcare spending in 2008 and projected 2018

Source: Milliman Medical Index for 2008 and PwC Health Research Institute projections of 2017 medical spending based on the 2017 Milliman Medical Index.
http://us.milliman.com/insight/?pfld=2413
Medical cost trend’s “usual suspects”

In addition to inflators and deflators tied to a particular year, these perennial factors place upward and downward pressure on cost trend.
Factors affecting 2018 medical cost trend

**Inflator #1: Rising general inflation impacts healthcare**

US healthcare spending historically tracks the Consumer Price Index

*Growth in personal healthcare expenditures versus CPI, 1970 - 2018*

Inflator #1: Rising general inflation impacts healthcare

The price of providing hospital and physician services has increased as the rate of general inflation growth has increased

Growth in wages and healthcare “market baskets”

Source: PwC Health Research Institute analysis of CMS Market Basket, CMS National Health Expenditure Accounts, CBO Economic and Budget Outlook, and Bureau of Labor and Statistics data.
Inflator #2: Movement to high-deductible health plans loses steam

The share of employers considering a high-deductible health plan as a full replacement option is falling

Percentage of employers who say they have adopted or are considering adopting a high-deductible plan as a full replacement option for medical benefits, 2012-2017

Source: PwC Health Research Institute analysis of PwC Health and Well-Being Touchstone Surveys, 2012-2017
**Inflator #3: Fewer branded drugs come off patent**


Source: PwC Health Research Institute analysis of Optum data
Inflator #3: Fewer branded drugs come off patent

Most of the cost-savings impact of a branded drug going off patent is usually seen 12 to 24 months following the patent’s expiration.

Example: A branded medication that sells for $100 before patent expiration is sold for $95 by a single generic manufacturer during the first six months, when that generic manufacturer is granted exclusivity for 180 days. However, over the next six to 18 months, as more companies are approved to produce the generic, the price drops to $40.

Source: PwC Health Research Institute analysis of FDA data
Deflator #1: Political and public scrutiny puts pressure on drug prices

Public scrutiny and political pressure on pharmaceutical companies put downward pressure on the growth in drug costs in the 1990s

Factors affecting 2018 medical cost trend

Election of President Bill Clinton
Harris Wofford wins Pennsylvania Senate special election with promise of health reform

Health reform effort collapses
President Bill Clinton health reform plan introduced
Deflator #2: Employers target right people with right treatments to minimize waste

More employers say they are using strategies to minimize waste

Percentage of employers who say they are using controls to manage specialty drug costs, 2015-2017

Source: PwC Health Research Institute analysis of PwC Touchstone Health and Well-being Surveys, 2015-2017
How could Trump administration policy impact employers and their healthcare spending?

Overall, the impact of Trump administration policy on employers and their healthcare costs is likely to be modest in the near term.

### House-passed American Health Care Act (AHCA)

<table>
<thead>
<tr>
<th>Eliminates/Reduces</th>
<th>Delays</th>
<th>Implements</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Employer and individual mandate penalties</td>
<td>• Cadillac tax</td>
<td>• State waivers for some consumer protections</td>
</tr>
<tr>
<td>• Income-based tax credits and cost-sharing subsidies</td>
<td></td>
<td>• Age-based tax credits</td>
</tr>
</tbody>
</table>

### Other

Potential administration impacts

- Slowdown in growth in hospital employment
- Changes in regulatory leadership
- Corporate tax reform

Focus on value and push to reduce healthcare costs won’t abate.
Employers need to look for new cost containment strategies beyond shifting more costs to employees

### Employers

**Things to consider:**

**Target work site health promotion programs to the right people**

Consider harnessing biometric data and analytics tools to target health programs to the right people, treating populations as individuals rather than averages.

**Evaluate the value of drug spending**

Take a deep dive into claims data to identify what conditions and drugs drive spending. Employers can better evaluate new therapeutics’ potential value and weigh added costs against potential benefits for employees.

**Focus more on provider arrangements to tackle price**

Focus on supply-side management like narrow networks and direct provider contracting to keep prices down. New entrants can be leveraged to bridge the gap with providers.

### Healthcare providers

### Health insurers

### Pharmaceutical and life sciences
**Healthcare providers need to seize opportunities to take on more risk and improve care management**

**Things to consider:**

<table>
<thead>
<tr>
<th><strong>Employers</strong></th>
<th><strong>Assess skills mix</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Make the most of staff’s skills and productivity and ensure that all staff practice to the top of their license.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Healthcare providers</strong></th>
<th><strong>Look for new opportunities to manage drug costs</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ally with health insurers, patient advocacy organizations and the government to work with drug companies on pricing models the market can bear.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Health insurers</strong></th>
<th><strong>Demonstrate value to employers</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Seize the opportunity to participate in pay-for-performance models. Providers that can guarantee prices and outcomes early can establish relationships with employers ahead of competitors.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Pharmaceutical and life sciences</strong></th>
<th><strong>Invest in care management</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Focus on nonclinical staff like case managers and social workers who can help keep costs down through improved care coordination.</td>
</tr>
</tbody>
</table>
To prove their value to employers, health insurers need to help steer patients to most effective treatments, push for price transparency

### Things to consider:

<table>
<thead>
<tr>
<th>Things to consider</th>
<th>Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employers</strong></td>
<td>Look for ways to automate processes</td>
</tr>
<tr>
<td></td>
<td>Consider automating call center processes using advanced analytics and cloud-based technologies. Robotics can increase adjudication rate in claims processing.</td>
</tr>
<tr>
<td><strong>Healthcare providers</strong></td>
<td>Consider alternative therapies</td>
</tr>
<tr>
<td></td>
<td>Offer incentives to persuade patients to engage in alternative methods—such as lifestyle management—to manage chronic conditions without costly drugs. As they become available, explore building biosimilars into plans.</td>
</tr>
<tr>
<td><strong>Health insurers</strong></td>
<td>Explore value-based purchasing with biopharmaceutical companies</td>
</tr>
<tr>
<td></td>
<td>Consider outcomes-based payment models with drug companies. Facing greater scrutiny of their prices, they may be more interested in these arrangements, and health insurers may have more negotiating leverage.</td>
</tr>
<tr>
<td><strong>Pharmaceutical and life sciences</strong></td>
<td></td>
</tr>
</tbody>
</table>
To prove their value to employers, health insurers need to help steer patients to most effective treatments, push for price transparency

**Employers**

- Take ownership of collaborating with pharmaceutical companies and providers to manage high-risk patients

**Healthcare providers**

- Work more closely with providers and pharmaceutical companies to identify high-risk patients and make sure they are adhering to their treatment.

**Health insurers**

- Be providers’ partner in reducing medical costs

**Pharmaceutical and life sciences**

- Deploy care managers, social workers and community health workers to help consumers navigate the healthcare system and providers manage patients better. Supplying data and analytics also can give providers more insight into patient populations.

Things to consider:
Drug companies need to increase collaboration, giving stakeholders greater insight into pricing, value

Things to consider:

**Employers**

Re-evaluate sales and marketing needs

Consider outsourcing nonclinical operations, including sales, marketing and manufacturing. Savings can be reinvested in strategic growth initiatives.

**Healthcare providers**

Model drug pricing policy impacts

Proactively model various drug pricing policy impacts to be prepared to give clear justifications for pricing decisions from the perspective of different customers.

**Health insurers**

Collaborate on pricing decisions upfront

Collaborate with PBMs and third-party drug value assessors to set prices before launch and avoid public backlash.

**Pharmaceutical and life sciences**

Educate providers on personalized medicine’s benefits

Educate physicians on the latest genetic technology’s benefits and its potential to eliminate costs from ineffective treatments.
Thank you!

pwc.com/us/healthindustries
pwc.com/hri
twitter.com/PwCHealth

Benjamin Isgur
Health Research Institute Leader
214 754 5091
benjamin.isgur@pwc.com
@bisgur

To download the full report, please visit: www.pwc.com/us/MedicalCostTrends

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice or a contract for services. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law.

PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2017 PricewaterhouseCoopers LLP, a Delaware limited liability partnership. All rights reserved. PwC refers to the US member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should Not be used as a substitute for consultation with professional advisors.